

Message Text

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INFO OCT-01 ISO-00 IO-13 AF-08 ARA-06 EA-07 EUR-12 NEA-10

SSO-00 NSCE-00 INRE-00 USIE-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 AGRE-00

CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 FRB-03 ITC-01

OIC-02 L-03 H-01 DODE-00 PA-01 PRS-01 /121 W

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FM USMISSION GENEVA

TO SECSTATE WASHDC IMMEDIATE 4020

INFO AMEMBASSY BRASILIA

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY OTTAWA IMMEDIATE

AMEMBASSY PARIS

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 1 OF 2 GENEVA 9685

FROM U.S. TEXTILE DELEGATION

E.O. 11652: GDS

TAGS: ETRD, CA

SUBJECT: CANADIAN TEXTILE IMPORT RESTRAINTS

SUMMARY. U.S. TEXTILE DELEGATION IS DEEPLY CONCERNED ABOUT IMPACT ON INTERNATIONAL TEXTILE COOPERATION AND U.S. TEXTILE INDUSTRY OF CANADIAN TEXTILE IMPORT RESTRAINTS UNDER ARTICLE XIX OF THE GATT. THEIR IMPOSITION STRENGTHENS PROTECTIONIST FORCES AROUND THE WORLD AND THREATENS TO UPSET FRAGILE STRUCTURE OF INTERNATIONAL TEXTILE COOPERATION. RESTRAINTS COVER MAJOR PART OF U.S. TEXTILE EXPORTS TO CANADA AND APPEAR DESIGNED TO DO SO DESPITE CANADIAN DISCLAIMERS. U.S. DELEGATION INFORMED TEXTILE COMMITTEE OF U.S. OPPOSITION TO CANADIAN ACTIONS AND ITS INTENT TO PURSUE ITS RIGHTS UNDER THE GATT AND THE MFA. END SUMMARY.

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1. FOR THE FOURTH TIME IN THE PAST SIX MONTHS CANADA HAS IMPOSED TEXTILE IMPORT RESTRAINTS UNDER ARTICLE XIX OF THE GATT. EARLIER RESTRICTIONS WERE ON ACRYLIC YARN, DOUBLE-KNIT SYNTHETIC FABRIC AND POLYESTER YARN. MOST RECENT RESTRICTION IS ON MAJOR CATEGORIES OF IMPORTED APPAREL. COMBINED RESTRICTIONS AFFECT MORE THAN ONE-HALF OF ALL CANADIAN TEXTILE IMPORTS.

2. CANADIAN ACTIONS ARE INCONSISTENT WITH PRINCIPLES ENDORSED BY CANADA IN ACCEDING TO THE ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES (KNOWN IN THE U.S. AS THE MFA AND IN CANADA AS THE ITA). THE MFA WAS ESTABLISHED UNDER THE GATT TO PROMOTE INTERNATIONAL COOPERATION IN TEXTILE TRADE. IT PROVIDED PARTICULAR STANDARDS AND PROCEDURES, LACKING IN THE GATT, FOR IMPOSING TEXTILE IMPORT RESTRICTIONS. THE STANDARDS REQUIRE A SHOWING OF DISRUPTION OF MARKETS FOR PARTICULAR PRODUCTS BY PARTICULAR COUNTRIES. THE PROCEDURES REQUIRE NOTIFICATION AND CONSULTATION WITH AFFECTED TRADING PARTNERS. THE CANADIANS HAVE NOT COMPLIED WITH EITHER THE STANDARDS OR THE PROCEDURES OF THE MFA. INSTEAD, THEY JUSTIFY THEIR ACTION ON THEIR GATT RIGHTS WHICH THEY AND OTHER PARTICIPATING COUNTRIES RESERVED WHEN JOINING THE MFA.

3. THE IMPLICATIONS OF THE CANADIAN ACTIONS FOR FUTURE INTERNATIONAL TEXTILE COOPERATION APPEAR TO BE UNDERSTOOD BY EVERY MEMBER OF THE INTERNATIONAL TEXTILE TRADING COMMUNITY EXCEPT CANADA AND AUSTRALIA. AS REPORTED MORE FULLY SEPTEL, THE DIRECTOR-GENERAL OF THE GATT SCHEDULED A SPECIAL SESSION OF THE GATT TEXTILE COMMITTEE ON DECEMBER 3 FOR THE SOLE PURPOSE OF DISCUSSING THE RELATIONSHIP BETWEEN MFA OBLIGATIONS AND GATT RIGHTS. IN IMPRESSIVELY MEASURED STATEMENTS DELEGATION AFTER DELEGATION FROM BOTH EXPORTING COUNTRIES AND IMPORTING COUNTRIES AFFIRMED THE OBLIGATION OF MFA PARTICIPANTS TO CONDUCT THEIR TEXTILE POLICY IN ACCORDANCE WITH THE PRINCIPLES OF THE MFA. NO DELEGATION EXCEPT ISRAEL CHALLENGED THE RETENTION BY CANADA OF A LEGAL RIGHT TO USE ARTICLE XIX, BUT ALL EXCEPT THOSE OF

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CANADA AND AUSTRALIA (WHICH IS USING GLOBAL TARIFF QUOTAS TO RESTRAIN TEXTILE IMPORTS) SAW NO JUSTIFICATION FOR THE SWEEPING RESTRAINTS IMPOSED BY CANADA WITHOUT REGARD FOR THE PRINCIPLES OF THE MFA OR FOR UNDERSTANDINGS ON LEVELS OF MARKET ACCESS PREVIOUSLY AGREED TO WITH SUCH SUPPLIERS AS KOREA AND HONG KONG. MODERATENESS OF DISCUSSION WAS ALL THE MORE REMARKABLE

IN THAT IT BEGAN WITH INTEMPERATE CANADIAN STATEMENT BY PERCY EASTMAN WHICH LASHED OUT AT EVERY PARTICIPATING COUNTRY AND EVERY SORE IN THE GATT. U.S. WAS HONORED WITH SPECIAL OPPROBRIUM FOR ITS EXPORT SUBSIDIES THROUGH DISC, COUNTERVAILING DUTY ACTIONS, AND LACK OF AUTHORITY TO IMPOSE EXPORT CONTROLS.

4. IMPORTING COUNTRIES WERE PARTICULARLY CONCERNED THAT THE CANADIAN ACTION WOULD PROVOKE A TIDE OF PROTECTIONISM AMONG DEVELOPED COUNTRIES. THE INDUSTRIES IN THESE COUNTRIES HAVE BEEN HARD HIT BY GLOBAL RECESSION, THEIR OWN DELAYS IN IMPLEMENTING IMPORT RESTRAINTS UNDER THE MFA AND THE GROWTH IN IMPORT ACCESS PERMITTED UNDER THE MFA. INDUSTRY AND LABOR LEADERS, INCLUDING THOSE OF THE U.S., ARGUE THAT IF CANADA IMPOSES RESTRICTIONS WITHOUT REGARD TO THE PRINCIPLES OF THE MFA, OTHER GOVERNMENTS SHOULD DO LIKEWISE. GOVERNMENTS IN EUROPE, PARTICULARLY IN THE UK AND FRANCE, ALREADY UNDER PRESSURE TO MAKE THE MFA MORE RESTRICTIVE, MAY HAVE GREAT DIFFICULTY IN RESISTING INDUSTRY PRESSURES TO FOLLOW THE CANADIAN LEAD.

5. THE RESTRAINT OF TEXTILE EXPORTING COUNTRIES IN CRITICIZING CANADA REFLECTS THEIR APPRECIATION OF THE THREAT THE CANADIAN ACTIONS POSE TO CONTINUED INTERNATIONAL TEXTILE COOPERATION AS WELL AS THEIR RELIANCE ON THE GATT PROVISIONS FOR THEIR OWN TEXTILE IMPORT RESTRAINTS. THE MOST CONCERNED EXPORTING COUNTRIES ARE TRYING TO MAINTAIN A BROAD BASE OF SUPPORT AMONG EXPORTING COUNTRIES FOR RENEWAL OF THE MFA AT THE CURRENT SESSION WITHOUT CHANGES FAVORING EITHER IMPORTING OR EXPORTING COUNTRIES. THE U.S. DELEGATION, BELIEVING THAT NO BETTER OPPORTUNITY FOR RENEWAL OF THE MFA MAY COME, IS SIMILARLY SUPPORTING MFA RENEWAL WITHOUT CHANGE. THE CONFIDENTIAL

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ACTIONS BY CANADA AND ITS PLAIN LACK OF CONCERN FOR ITS MFA OBLIGATIONS IN TAKING THEM ARE THE SECOND MOST IMPORTANT OBSTACLE TO MFA RENEWAL, AFTER THE EUROPEAN ECONOMIC COMMUNITY' INSISTENCE ON PURSUING RETROGRESSIVE CHANGES IN THE MFA.

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ACTION EB-07

INFO OCT-01 ISO-00 IO-13 AF-08 ARA-06 EA-07 EUR-12 NEA-10

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C O N F I D E N T I A L SECTION 2 OF 2 GENEVA 9685

FROM U.S. TEXTILE DELEGATION

6. DESPITE CONCERN ABOUT THE SCOPE AND NATURE OF THE CANADIAN ACTIONS, THE DIFFICULT SITUATION OF SOME SECTORS OF THE CANADIAN TEXTILE INDUSTRY MUST BE RECOGNIZED. ALTHOUGH DETAILS IN RESPECT TO PARTICULAR PRODUCTS HAVE NOT BEEN PROVIDED, UNEMPLOYMENT IS HIGH IN THE CANADIAN APPAREL SECTOR, AND IMPORTS HAVE RISEN SHARPLY. CANADA'S TEXTILE INDUSTRY IS NOT INTEGRATED, AND ITS AVERAGE IMPORT PENETRATION RATIO, TRADITIONALLY HIGH, HAS RISEN FURTHER, ALTHOUGH IT REMAINS SIGNIFICANTLY BELOW THAT OF THE NORDIC COUNTRIES.

7. THE CANADIAN INDUSTRY'S SITUATION HAS BEEN AGGRAVATED BY THE CANADIAN GOVERNMENT'S LONGSTANDING INDIFFERENCE TO THE INDUSTRY'S PLEAS FOR PROTECTION. CANADA'S SPARING USE OF THE MFA HAS BEEN EXPLAINED BY THE PRIORITY

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AFFORDED CONSUMER INTERESTS AND A LACK OF LEGISLATIVE AUTHORITY FOR COMPREHENSIVE AGREEMENTS. WHATEVER THE

REASONS WERE, THE CANADIAN GOVERNMENT'S PREVIOUS TEXTILE IMPORT POLICY DID LITTLE TO HEAD OFF THE PRESENT CRISIS.

8. THAT THE CRISIS HAS A SIGNIFICANT AND POSSIBLY CRITICAL POLITICAL DIMENSION IS EVIDENT. OVER THREE-QUARTERS OF CANADA'S APPAREL INDUSTRY IS LOCATED IN QUEBEC, AND UNEMPLOYMENT IN THE TEXTILE INDUSTRY WAS REPORTEDLY AN ISSUE IN THE RECENT PROVINCIAL ELECTIONS. CANADIAN INDUSTRY SOURCES REPORTEDLY CONFESS THAT THE RESTRAINT ACTIONS WOULD NOT HAVE BEEN APPROVED BY THE CABINET AT THIS TIME WERE IT NOT FOR THE QUEBEC ELECTION RESULT.

9. CANADIAN OFFICIALS ASCRIBE THEIR UNWILLINGNESS TO USE THE MFA TO DEAL WITH TEXTILE IMPORTS TO THE URGENCY OF THEIR SITUATION AND THE CUMBERSOMENESS OF THE MFA. THEY SAY CANADA HAS NEITHER THE TIME NOR THE ADMINISTRATIVE RESOURCES TO NEGOTIATE AGREEMENTS WITH PARTICULAR SUPPLIERS FOR PARTICULAR PRODUCTS. THEIR CREDIBILITY IS IMPAIRED BY THE AUTHORITY CONTAINED IN THE MFA (ARTICLE 3:6) FOR IMMEDIATE IMPOSITION OF RESTRAINTS BY THE IMPORTING COUNTRY AND THE CONCENTRATION OF CANADIAN TEXTILE IMPORTS FROM A FEW SOURCES. MOREOVER THE CANADIANS HAVE LONG EXPRESSED CONCERN THAT MEASURES TO RESTRAIN LOW-COST IMPORTS HAVE BENEFITED OTHER DEVELOPED COUNTRY SUPPLIERS, PARTICULARLY THE U.S., AS MUCH AS CANADIAN INDUSTRY. THE ACTION UNDER ARTICLE XIX ENABLES RESTRAINTS ON IMPORTS OF PRODUCTS FOR WHICH COMESTIC MARKETS ARE NOT DISRUPTED FROM SOURCES WHICH MAY BE NEITHER LOW-COST NOR INCREASING THEIR SHIPMENTS, ALL FEATURES WHICH THE MFA WAS ESTABLISHED TO PREVENT.

10. THE DISTINCITION BETWEEN GATT XIX RESTRAINTS AND MFA RESTRAINTS IS PROBABLY OF CRITICAL IMPORTANCE TO U.S. TRADE INTERESTS IN CANADA. CANADIAN OFFICIALS HAVE PRESENTED NO EVIDENCE THAT U.S. EXPORTS OF SPECIFIC APPAREL PRODUCTS ARE DISRUPTING CANADIAN MARKETS NOR HAVE THEY YET PROVIDED ANY GUARANTEES THAT THE

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ARTICLE XIX ACTION WILL NOT RESULT IN DISPLACEMENT OF EXISTING U.S. TRADE BY IMPORTS FROM LOWER COST SOURCES. CANADIAN INDUSTRY SOURCES SAY THEY EXPECT CANADA TO TRY TO MEET CRITICISM FROM DEVELOPED COUNTRY SUPPLIERS BY APPLYING PROVISIONS OF ARTICLE XIII(2).

11. AND THE CANADIAN ACTIONS AFFECT A SIGNIFICANT PORTION OF U.S. TEXTILE EXPORTS. CANADA IS THE LARGEST U.S. MARKET FOR APPREL. DEPENDING ON SOURCE OF DATA, THE

SIZE OF THE APPAREL MARKET MAY RUN AS HIGH AS \$70 MILLION. ADDITIONAL \$ MILLIONS IN TRADE HAVE BEEN COVERED BY EARLIER CANADIAN ACTIONS.

12. THE PRINCIPLES CONTAINED IN THE MFA REFLECT THE REALIZATION THAT ALL TEXTILE TRADING COUNTRIES HAD AN INTEREST IN AVOIDING RESTRAINTS WHICH COULD NOT BE JUSTIFIED BY EVIDENCE OF DISRUPTION OF THEIR DOMESTIC INDUSTRY. CANADA HAS GONE BACK ON THOSE PRINCIPLES. ITS ACTION CAN BE EXPECTED TO RESULT IN UNJUSTIFIED LOSS OF BUSINESS FOR AMERICAN FIRMS AND JOBS FOR AMERICAN WORKERS. THE U.S. CAN AND SHOULD PURSUE THIS ISSUE WITHIN THE MFA. IN PARTICULAR, THE U.S. DELEGATION BELIEVES THAT AS SOON AS THE GATT TEXTILE COMMITTEE MEETING HAS CONCLUDED AND APPROPRIATE INTER-AGENCY APPROVAL OBTAINED, THE U.S. SHOULD REQUEST CONSULTATIONS WITH CANADA UNDER ARTICLE 9 OF THE MFA AIMED AT THE IMMEDIATE RESCISSION OF ALL CANADIAN ACTIONS WHICH CIRCUMVENT THE MFA, AND, IF THAT REQUEST IS DENIED, IMMEDIATELY FILE A COMPLAINT WITH THE TEXTILE SURVEILLANCE BODY. AT THE SAME TIME THE U.S. SHOULD PURSUE ITS RIGHTS UNDER ARTICLE XIX OF THE GATT INCLUDING PARAGRAPH 3(B) THEREOF. THE MORE VIGOROUS THIS PURSUIT IS, THE MORE VALUE IT WILL BE IN CHECKING THE SPREAD OF SUCH PROTECTIONIST ACTIONS.

13. CANADIAN INDUSTRY OFFICIALS REPORTEDLY STATE CANADA DOES NOT INTEND TO PROVIDE COMPENSATION, AND INDUSTRY OFFICIALS POINT WITH SOME JUBILATION TO THE DIFFICULTIES SUCH TEXTILE SUPPLIERS AS KOREA AND HONG KONG WILL HAVE IN MEANINGFULLY RETALIATING. POSSIBILITY EXISTS THAT, IN ABSENCE OF EFFECTIVE RETALIATION BY U.S., CANADA MAY

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BE ABLE TO EFFECT MAJOR INJURY TO OTHER NATIONS' TEXTILE TRADE, DISREGARD ITS MFA OBLIGATIONS, AND ABUSE ITS GATT RIGHTS WITHOUT INCURRING OFFSETTING ECONOMIC COSTS. SUCH A PRECEDENT WOULD UNDOUBTEDLY TEMPT OTHER COUNTRIES WITH DISTRESSED TEXTILE INDUSTRIES TO TRY THE SAME TECHNIQUES. CATTO

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